

FISCAL NOTE

Return in triplicate)

Bill/Resolution No.: SCR 4017 Amendment to: _____

Requested by Legislative Council Date of Request: _____

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, and cities.

Narrative: Read attached document.

2. State fiscal effect in dollar amounts:

	<u>1991-93</u> <u>Biennium</u>		<u>1993-95</u> <u>Biennium</u>		<u>1995-97</u> <u>Biennium</u>	
	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Funds</u>	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Funds</u>	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Funds</u>
Revenues:	-0-	-0-	-0-	-0-	Undeterminable	
Expenditures:	-0-	-0-	-0-	-0-	due to unknown factors	

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

- a. For rest of 1991-93 biennium: -0-
- b. For the 1993-95 biennium: -0-
- c. For the 1995-97 biennium: -0-

4. County and City fiscal effect in dollar amounts:

	<u>1991-93</u> <u>Biennium</u>		<u>1993-95</u> <u>Biennium</u>		<u>1995-97</u> <u>Biennium</u>	
	<u>Counties</u>	<u>Cities</u>	<u>Counties</u>	<u>Cities</u>	<u>Counties</u>	<u>Cities</u>
	-0-	-0-	-0-	-0-	Undeterminable due to unknown factors	

If additional space is needed,
attach a supplemental sheet.

Signed Charles W. Keller

Typed Name Charles W. Keller

Department Attorney General's Office

Phone Number 4482

Date Prepared: February 11, 1993

SENATE CONCURRENT RESOLUTION NO. 4017

NARRATIVE

This concurrent resolution proposes an amendment to the Constitution of North Dakota for authorizing the Legislative Assembly to establish a state lottery. If the amendment passes, the 1995 Legislative Assembly may establish a state lottery commission.

Based on an analysis of the United States lottery industry, and consultation with the Multi-State Lottery Association and several lottery states which are similar to North Dakota demographically, the lottery products suitable for North Dakota are video lottery (video gaming devices), and Powerball (formerly Lotto America). Video lottery would be the primary lottery product. However, video lottery would not be available as a lottery product if licensed gaming organizations are authorized to conduct games of chance through video gaming devices. Powerball is a national lotto game. North Dakota does not have sufficient population to sustain an independent "lotto" game, does not have the "numbers" culture for lottery pick 3 or 4 type games, and, due to the availability of pull tabs in the charitable gaming industry, North Dakota may not be able to maintain a reasonable market for lottery instant tickets. Video lottery and participation in Powerball may not be operational until at least six months after the establishment of a state lottery commission.

There is no generally accepted formula or model for forecasting lottery revenue, prizes, vendors' fees, administrative and operating expenses, and net proceeds for a state. Each state has unique requirements and characteristics. Based on specific lottery statutes, forecasts may be made based on correlations of historical experiences of states similar to North Dakota with appropriate factoring. However, this concurrent resolution does not contain specific information about what the 1995 Legislative Assembly may prescribe for a lottery, such as start-up dates, lottery products, license fees, retailers' fees, vendors' fees, prize levels, tax rates, whether video devices would be operator-owned or state-owned, and whether Powerball would be vendor-operated or state-operated. Accordingly, the fiscal effect of this concurrent resolution is undeterminable.

GROSS ANNUAL WAGER

poker-like versions of pai-gow and super pan-nine, and have taken on many of the outward attributes of casinos. The "seat rental" method of taking money out of non-Nevada card room games makes effective takeout percentages difficult to estimate; we think these currently average around 7.9%, although some figures that recently appeared in *The Wall Street Journal* imply that the Bell Gardens Bicycle Club retains only 3.6% of the amounts wagered on its premises.⁷ We remain convinced that non-Nevada cardroom games are a highly profitable division of USGI.

State and municipal lotteries

In the past two or three years we've pointed to a fundamental change in lottery market economics as older lotteries mature, and have predicted slower revenue growth for this USGI division in the coming decade. We were right on target.

After slowing precipitously in 1990, to just 7.2% or \$689.5 million in new GGR, lotteries slipped into the minus column in 1991 (Chart 10). For the first time in this series gross revenues from U.S. lottery operations declined, and while the decline was marginal (-0.6%, or \$61.5 million) it marked a watershed in the evolution of what remains (until casinos overtake lotteries) the largest USGI division.

Supply and demand for tradi-

tional lottery games are now in equilibrium. This has profound implications for the future of commercial gambling in the United States.

Lottery games were the engine driving the enormous increase in U.S. gross gambling revenue during the 1980s. Between 1982 and 1990, lottery GGR grew at an average annual rate of 21.5%, a growth rate exceeded only by card rooms (38%) and legal sports books (25.9%). Revenues from these three USGI divisions increased at rates that far exceeded growth in the general economy. All three hit the wall in 1991.

The prospects for a return to double-digit growth in traditional lottery games are nil. Although the Southern states appear ready to embrace lotteries most of these markets are small.

Texas, the only truly large state without a mature lottery operation, inaugurated its lottery with a \$1 scratch-off game in June 1992. First-week sales reached \$102.4 million, beating the previous first-week sales record of \$95 million set by Florida in 1988.

The Texas Lottery should vault into the \$1 billion sales club in its initial year of operations. The start of the Texas Lottery means U.S. lottery revenues will grow in 1992, but the growth is unrepeatable: Texas, like other States, can only start its lottery once.

For vendors of traditional lottery games and the governments that have come to depend on consumer willingness to play them, the maturing condition of lotteries is taking on the character of a crisis. Lotteries' share of the legal U.S. gambling revenue dollar declined sharply in 1991, by 0.93 percentage points; for traditional lottery games the decline exceeded a percentage point (-1.02%). (Table 5, Chart 3.)

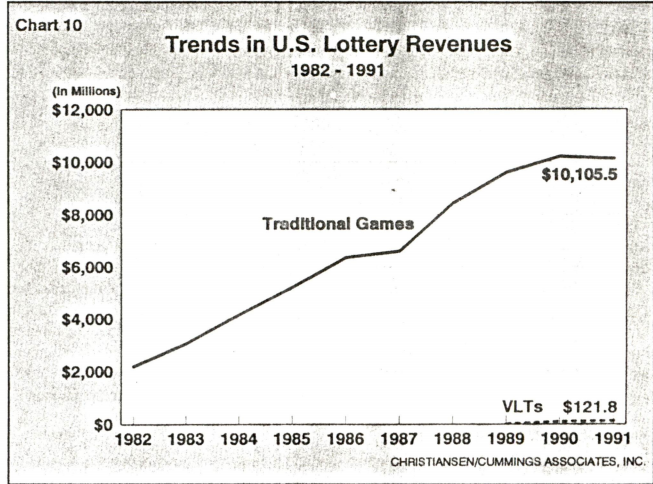
In a continuation of what is now a well established trend, the average consumer price (takeout) of lottery games also declined, to

48.72%, from 48.96% in 1990 and down from about 53% in 1982. The principal factor contributing to the lower consumer price of lottery gambling was the increase in VLT handle, from which the takeout is markedly lower (33.3% in 1991) than in traditional lottery games. In addition, many states are increasing payout rates on instant games to increase sales.

VLTs are clearly the key to the lottery industry's future. VLT revenues were up 26.3%, or by \$25.4 million, a percentage increase exceeded only by new-market casinos, off-track Greyhounds, and Class III Indian gaming among all U.S. commercial games. Market

bright spot was off-track betting. Elsewhere parimutuels had a bad year (Chart 11).

Revenues generated from on-track horse (-5.5%) and Jai-alai (-11.3%) were sharply down. Off-track horse revenues were up 7.25% (\$58.5 million), but the gains were only half the \$114.9 million decline in on-track horse revenues. Off-track Greyhound revenues were up very strongly, +45.8%, but from a tiny base, and the dollar increase, \$2.3 million, was small. Fortunately on-track Greyhound revenues managed a marginal gain, 1.4% or \$9.5 million, and aggregate Greyhound revenues stayed in the plus col-



economics, in other words, are no longer an issue: VLT poker and keno are games consumers want to play.

VLT politics are another matter. In most states, VLTs need specific statutory authorization. Getting that authorization can be a tricky process. To take one example, Connecticut, earlier this year almost enacted law authorizing gaming devices (in this case at both privately and state-owned parimutuel facilities) but at the last minute stepped back.

As this article went to press, neighboring Rhode Island approved a bill authorizing the Rhode Island lottery to implement video lottery terminals in two parimutuel locations: Lincoln Greyhound Park and Newport Jai-alai. This will undoubtedly put renewed pressure on Connecticut and Massachusetts to follow suit. Similar scenarios are being played out in legislatures across the country. We'll report on their development next year.

Parimutuels

Parimutuel sports were USGI's worst performers. Following a \$142.7 million (4%) increase in aggregate parimutuel GGR in 1990, the sector reported a \$57.4 million (1.55%) decline in 1991. The one

umn at +1.7% (\$11.8 million).

And that was the story for parimutuel sports. As they have since this series of articles began in 1982, all three lagged the other mainstream U.S. commercial games.

The big three

In terms of revenues, U.S. commercial gambling divides into two groups: The Big Three of lotteries, casinos, and parimutuel sports; and assorted smaller industries that, while containing substantial businesses, are far smaller in aggregate GGR than USGI's three largest divisions.

The Big Three generated 86% (\$22.9 billion) of U.S. legal GGR in 1991, down from 87% in 1990. These three industries have several things in common. All three appeal to diverse bodies of consumers. All three utilize games that have been around in one form or another for centuries. And all three are undergoing rapid technological change, both as respects their product lines and the ways in which these products are packaged and presented to consumers.

Beyond these similarities some striking differences emerge. Lotteries and casinos are games of mass consumption: The products they offer are easy to use and at-

